



Council Communication

TO: HONORABLE MAYOR AND COUNCILMEMBERS

FROM: DOUG MARSHALL, HUMAN RESOURCES ANALYST (X6857) *DM*

THROUGH: CARRIE BOSLEY, INTERIM HUMAN RESOURCES MANAGER (X6859) *CB*
MARC SKOCYPEC, ASST. TOWN MANAGER (X6862)

MEETING DATE: APRIL 19, 2012

SUBJECT: ANNUAL REPORT ON THE TOWN OF GILBERT, ARIZONA SELF-INSURANCE TRUST FUND FOR HEALTH INSURANCE BENEFITS

STRATEGIC INITIATIVE: Financial Plan

The Self-Insurance Trust Fund for Health Insurance Benefits is a self-funded approach to providing medical and dental benefits, which represent a significant portion of staff costs.

LEGAL REVIEW

☐ Complete

☒ N/A

FINANCIAL REVIEW

☐ Complete

☒ N/A

RECOMMENDED MOTION

MOTION TO ACCEPT THE ANNUAL REPORT OF THE TOWN OF GILBERT, ARIZONA SELF-INSURED TRUST FUND FOR HEALTH INSURANCE BENEFITS FOR PLAN YEAR ENDING JUNE 30, 2011 AND TO APPROVE THE TOWN'S GROUP MEDICAL AND DENTAL PLAN PREMIUMS WITH NO CHANGE FOR FISCAL YEAR 2012-13

BACKGROUND/DISCUSSION

Trustees' Report to Council

The Town Council authorized creation of a trust for self insured health benefits effective July 1, 2003 and appointed a Board of Trustees to serve as fiduciaries. The current trustees are Chairman Tony Panepinto, Vice Chairman Les Presmyk, Councilmember Daniels, Bob Elmer, and Marc Skocypec. The Board of Trustees has prepared a report summarizing the financial condition of the trust. The following table represents Fiscal Year 2010-11 operating results:

Summary of Revenues & Expenses (Medical and Dental) Fiscal Year 2010-11		
Balance June 30, 2010	\$ 5,335,889	
Total Revenues		\$ 12,049,292
Total Expenses		- \$ 12,139,610
Change to Fund Balance FY 2010-11	- \$ 90,318	- \$90,318
Total Net Assets June 30, 2011	\$ 5,245,571	

On the Trustees' recommendation, the Town Council approved a temporary (1 ½ months) suspension of General Fund premium contributions as a designed reserve reduction for Fiscal Year 2010-11, saving the General Fund approximately \$1,500,000. The Plan performed better than expected, resulting in a lesser reserve reduction than was planned. But for the temporary general fund contribution reduction, plan assets would have increased in FY 2010-11.

The base premiums approved by the Town Council for Fiscal Year 2011-12 were unchanged for the medical plan and were reduced by 3% for the dental plan from Fiscal Year 2010-11. The Town Council also approved a temporary suspension of Town and employee premium contributions to the medical plan totaling approximately \$1,000,000, again intended to reduce the Plan reserve. The report contains preliminary information on current plan year experience.

Fiscal Year 2012-13 Premium recommendation

In consideration of projected claims cost and recognizing the strength of the health trust reserve, the Board of Trustees has recommended no change to medical or dental premiums. If approved by the Town Council, the premiums would be as follows:

FY 2012-13 proposed Medical premiums	Monthly Total Premium	Monthly Gilbert Contribution	Monthly Employee Contribution
Single Rate	\$ 441.12	\$ 352.90	\$ 88.22
Family Rate	\$1252.42	\$1,001.94	\$250.48

FY 2012-13 proposed Dental premiums	Monthly Total Premium	Monthly Town Contribution	Monthly Employee Contribution
Single Rate	\$ 37.02	\$29.62	\$ 7.40
Family Rate	\$104.82	\$83.86	\$20.96

FINANCIAL IMPACT

The recommended motion would result in no cost change to the Town of Gilbert.

STAFF RECOMMENDATION

Staff recommends acceptance of the Trustees' report and approval of premiums as presented.

Respectfully submitted,



Doug Marshall
Human Resources Analyst

Attachments and Enclosures: Board of Trustees report to Council

**TOWN OF GILBERT SELF-INSURED HEALTH TRUST
ANNUAL REPORT OF THE BOARD OF TRUSTEES
PLAN YEAR ENDING JUNE 30, 2011**

EXECUTIVE SUMMARY

Established beginning July 1, 2003, the Town of Gilbert Medical Plan provides benefits for employees and eligible dependents through a self-insurance trust. The Town of Gilbert also transitioned its dental plan under the self-insurance trust on July 1, 2010.

The Board of Trustees for the Self-Insured Health Trust has reviewed operational data for Fiscal Year 2010-2011 with the following results:

Summary of Revenues & Expenses (Medical and Dental)		
Fiscal Year 2010-2011		
Balance June 30, 2010	\$ 5,335,889	
Total Revenues		\$ 12,049,292
Total Expenses		- \$ 12,139,610
Change to Fund Balance FY 2011	- \$ 90,318	- \$90,318
Total Net Assets June 30, 2011	<u>\$ 5,245,571</u>	

The Town of Gilbert Medical Plan followed two consecutive years of decreased claims costs with an increase to total claims costs of about 5.5% in Fiscal Year 2010-2011. The base premium for Fiscal Year 2010-2011 would have resulted in growth to the reserve. However, the Board of Trustees recommended a reserve reduction and the Town Council approved a temporary suspension of Town contribution towards premiums from the General Fund, saving the Town of Gilbert approximately \$1,500,000 in Fiscal Year 2010-2011. The medical and dental plans performed better than expected, resulting in a lesser reserve reduction than planned. At the end of Fiscal Year 2010-2011, the Plan had sufficient reserves to pay out incurred but not reported (IBNR) claims, and the Board of Trustees again recommended a reserve reduction for 2011-2012.

The Town Council adopted 2011-2012 monthly premiums with no change to the medical plan base premium and a reduction of approximately 2% to the dental plan base premium. Additionally, the Town Council approved a temporary suspension of premium contributions totaling approximately \$1,000,000 shared between the Town and employees, intended to reduce the Plan reserve. The base premium rates reflect four years of premium stability and the Medical Plan has experienced a net 2% total premium increase since July 1, 2007. A greater portion of premium costs were shifted to employees in Fiscal Year 2008-2009, so the Town of Gilbert's normal contribution to premiums remains lower in Fiscal Year 2011-2012 than it was in Fiscal Year 2007-2008, even before consideration of the temporary reductions in employer contributions in Fiscal Year 2010-2011 and 2011-2012. Overall, the Town of Gilbert Medical Plan has experienced premium stability at a time when healthcare costs have generally risen at a rapid pace.

The remainder of this report provides background and additional detail regarding the operation of the self-funded medical and dental plans.

**Town of Gilbert Medical Plan
Board of Trustees' Report to Council
Plan Year Ending June 30, 2011**

HISTORY

In April, 2003, the Town Council was briefed on the status of the health insurance program offered to Gilbert employees and their dependents. Based on changes that Gilbert's traditional health insurance benefit provider was making as well as an assessment of the feasibility of self funding health benefits, it was the recommendation of staff and the decision of the Town Council to establish a self funded plan for the provision and management of health insurance benefits to its employees beginning in Fiscal Year 2003-2004.

The Town of Gilbert Medical Plan was established beginning July 1, 2003, with Mayo Management Services, Inc. (MMSI) appointed as the Plan's third party administrator. In accordance with ARS 11-981, a Board of Trustees, consisting of one council member, one staff member, and 3 appointed citizens was created to serve as fiduciaries for the Plan. The Plan has successfully operated for eight years.

Given the success of the self-funded medical plan and in consideration of the relatively predictable claims exposure for dental insurance, staff and the Board of Trustees recommended to the Town Council that the provision of dental benefits be converted to a self-funded design. The Town Council approved this recommendation effective July 1, 2010, and the Health Trust expanded to cover medical and dental benefits.

FISCAL YEAR 2010/2011 – OPERATING RESULTS

In 2010-2011, there were total revenues (combination of employer and participant contributions) to the Plan of \$12,049,292 and total expenses (claims and administrative costs) of \$12,139,610. The total expenses (including additional IBNR claims) for 2010-2011 exceeded the total revenues by \$90,318, resulting in a decrease to the Fund Balance. The medical plan experienced an increase of approximately 5.5% in claims costs per member from Fiscal Year 2009-2010 to Fiscal Year 2010-2011. This claims experience follows two consecutive years of decreases to claims costs and is less than market trend.

In addition to actual claims and expenses paid, adjustments have been made for those claims incurred but not yet paid. Claims in this area consist of services that have been provided during the plan year, but the claims have not been processed and paid as of the end of the plan year. These claims are called "Incurred But Not Reported" (IBNR) and traditionally represent primarily services provided within the last 90 days of the plan year.

On June 30, 2010, the estimated IBNR claims for the entire Plan were \$988,431. On June 30, 2011, the estimated IBNR claims for the entire Plan were \$1,080,441, including additional IBNR for the first year of the dental plan. As a result, the IBNR claims liability estimate as of June 30, 2011 has been increased by \$92,011 from that which was booked at the close of 2009-2010.

**Town of Gilbert Medical Plan
Board of Trustees' Report to Council
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Based on the IBNR estimate, at the end of plan year 2010-2011, there were sufficient reserves to pay out Incurred But Not Reported claims. This test is one of the most basic measures that are used to determine if a self funded plan is fully funded and has adequate reserves necessary to cover all of its outstanding expenses. The Plan's net assets reflect reserves in excess of the estimated IBNR claims.

STOP LOSS PROTECTION

While Gilbert is generally responsible for all claims made under the Medical Plan, statute requires that safeguards be in place to protect the fund from unusually high or catastrophic claims. These safeguards are referred to as stop loss insurance coverage and are available to protect against large specific (individual member) and aggregate (plan wide) claims. For 2010-2011, specific stop loss limits were maintained at \$250,000 and aggregate stop loss limits were maintained at 125% of projected claims.

The Plan received recoveries for claims in excess of the specific limit totaling \$3,308, including some recoveries from prior plan year claims. There were no aggregate stop loss recoveries.

DETAILED FINANCIAL SUMMARY

The following chart summarizes plan revenues and expenses for Fiscal Year 2010-2011.

Summary of Town of Gilbert Medical Plan Revenues & Expenses Fiscal Year 2010-2011			
Balance June 30, 2010	\$ 5,335,889		
Operating revenues:			
Plan contributions			\$ 11,949,542
Pharmacy rebates			\$ 26,873
Insurance recoveries			\$ 3,308
Refunds/Reimbursements			\$ 45,203
Non-operating revenues:			
Investment earnings			\$ 24,366
Total Revenues		\$ 12,049,292	\$12,049,292
Operating expenses:			
Paid expenses			\$ 12,047,599
IBNR claims increase			\$ 92,011
Total Expenses		- \$ 12,139,610	\$12,139,610
Change to Fund FY 2011	- \$ 90,318	- \$ 90,318	
Total Net Assets June 30, 2011	\$ 5,245,571		

**Town of Gilbert Medical Plan
Board of Trustees' Report to Council
Plan Year Ending June 30, 2011**

FISCAL YEAR 2011/2012

Based on favorable claims experience and the amount of reserve, the Board of Trustees recommended and the Council approved no change to the base monthly premiums for the medical plan and a 2% decrease to base monthly premiums for the dental plan in Fiscal Year 2011-2012. Further, the Board of Trustees advised the Town Council that the reserve had grown to exceed the amount that was necessary for the Plan. The Board of Trustees advised that the reserve could be reduced by approximately \$1,000,000 and would still be sufficient and appropriate based on the Plan's size and projection of future claims. As a result, the Town Council approved a reduction of \$1,000,000 through a premium holiday shared between the Town and participating employees.

Claims data for 2011-2012 has shown that the Medical Plan experienced an unusually high number of large claims early in the plan year. Claims have been trending downward since the early part of the Plan year and the Board of Trustees and staff have been working with the third party administrator to analyze whether this activity is an indicator of future claims exposure. The reserve is appropriate and sufficient for the Plan.